RIA PRO: Market "Melt Up" Continues

- ***Market Melt Up Continues***
- ***Sector & Market Analysis***
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Catch Up On What You Missed Last Week

#WhatYouMissed On RIA: Week Of 12-23-19

Written by Lance Roberts | Dec 27, 2019

This past week was our annual family ski trip, which is why our postings have...

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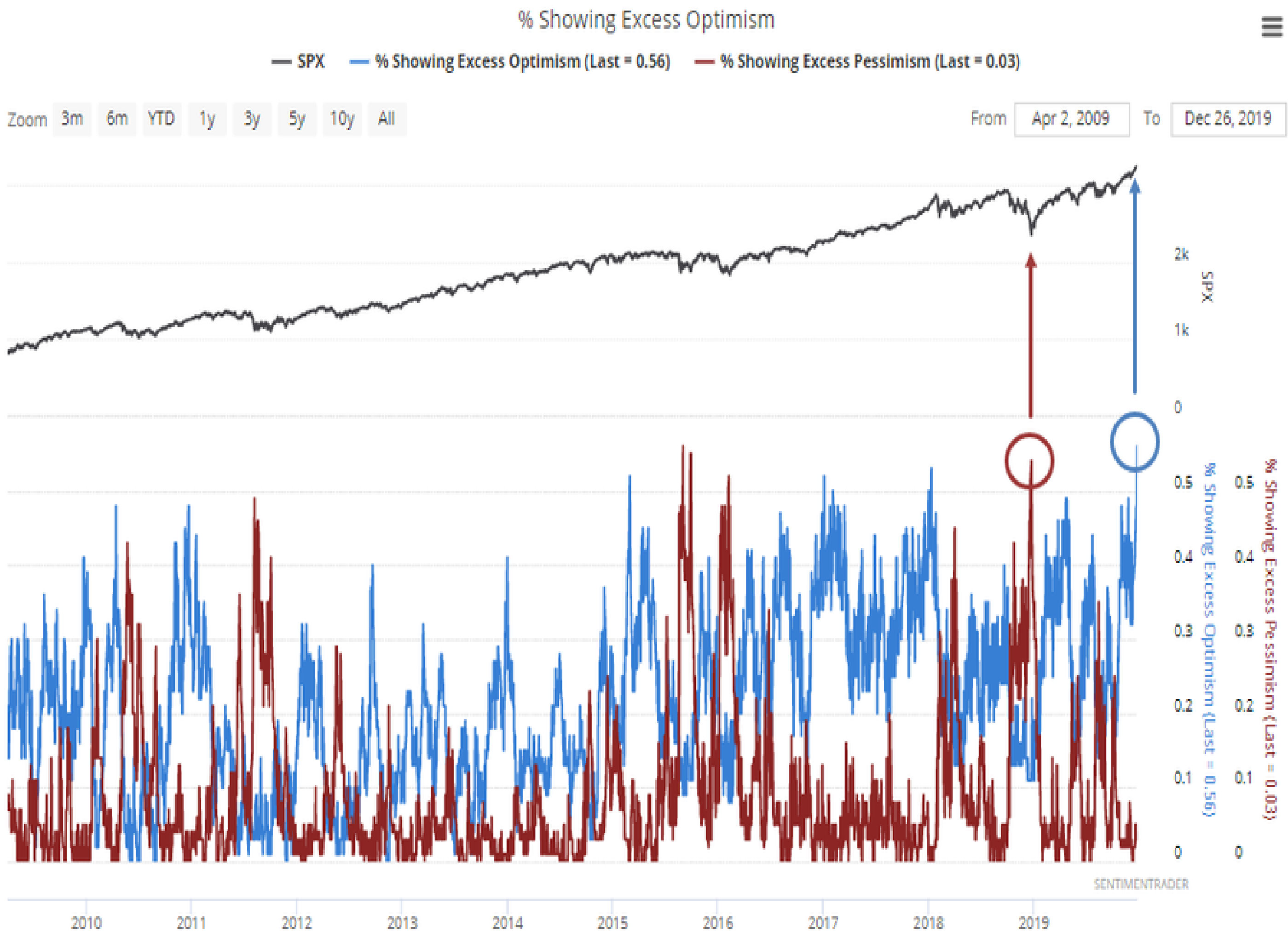
Market "Melt Up" Continues

I am traveling this week with my family for our annual *"year-end"* ski trip. I am working on a laptop so I won't be able to update some of the weekly market stat reports, but I did want to pen a few paragraphs on the market as we move into the last two trading days of the decade. I promise the full version of the newsletter will return next week.&#2013266080;

I want to start with the quote from *last week's missive* only because it is so apropos:&#2013266080;

> ***"We are so overbought, and this is feeling like a panicky-just-get-me-in buy day. Be careful about being impressed."*** *- Kevin Muir*

That remains the case again this week as investor optimism has surged to record highs. As noted by Sentiment Trader, this is a marked reversal from just 1-year ago as sentiment plumbed more extreme lows.



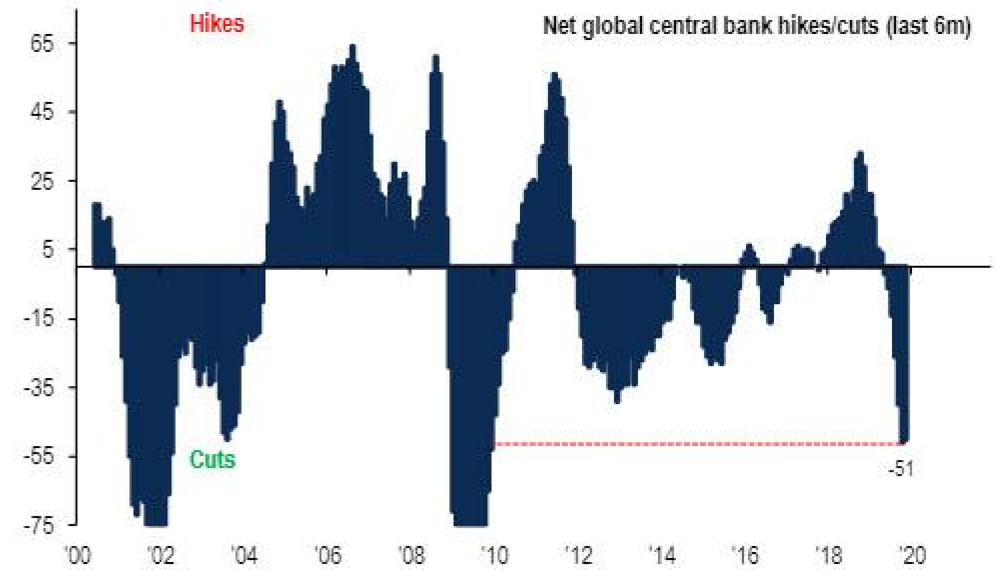
Of course, this reversal in optimism should not be a surprise. My pal [Victor Adair at Polar Futures](#) group explains this well.

> ***"The most important message from the financial markets in 2019 was, 'Don?t Fight The Fed.'*** *The 180 degree turn in Federal Reserve policy...the Powell Pivot...caused markets to realized that it was, once again, 'All About The Central Banks.'*
>
> ***In December 2018 the Fed raised interest rates*** *and indicated that they expected to be raising rates in 2019...but instead of raising rates they cut rates three times...stopped their quantitative tightening policies and wrapped up 2019 by pumping vast amounts of liquidity into the market.*
>
> ***The Fed?s policy reversal inspired Central Banks around the world*** *to step up their own monetary stimulus programs. That global shift to easier monetary policy may or may not have kept the world economy from slipping into recession in 2019...but it certainly helped drive global stock and bond markets to big gains. Bond yields hit All Time Lows, the 'stack' of negative yielding bonds soared to a high of ~$17 Trillion and major stock indices kept making 'New All Time Highs.'"*

As I penned last week:

> *"This stimulus is the largest ever outside of a 'recession' or 'financial crisis,' which should lead to the obvious question of 'what exactly is going on we don't know about?'"*

Chart 9: Central banks cutting like it's a crisis



Source: BofA Global Investment Strategy, Bloomberg

This surge of liquidity is the reason for the markets surge over the last 3-months and was the crux of Friday's *"Morning Market Commentary"&#2013266080;*which was provided to our ***RIAPRO subscribers:***

> *"While the media has continued to use the same straw man&#2013266080;of&#2013266080;**trade optimism&#2013266080;**to justify the rally **whatever trade agreement there may actually be was priced in long ago.***
>
> *The reality is that the Fed?s $500 billion flush of liquidity into year-end to meet short-term funding needs has been interpreted by the markets at ?QE.? This interpretation, and subsequent F.O.M.O, led to a rush by managers to benchmark performance and push equity allocations, and subsequently investor optimism, toward record highs."*

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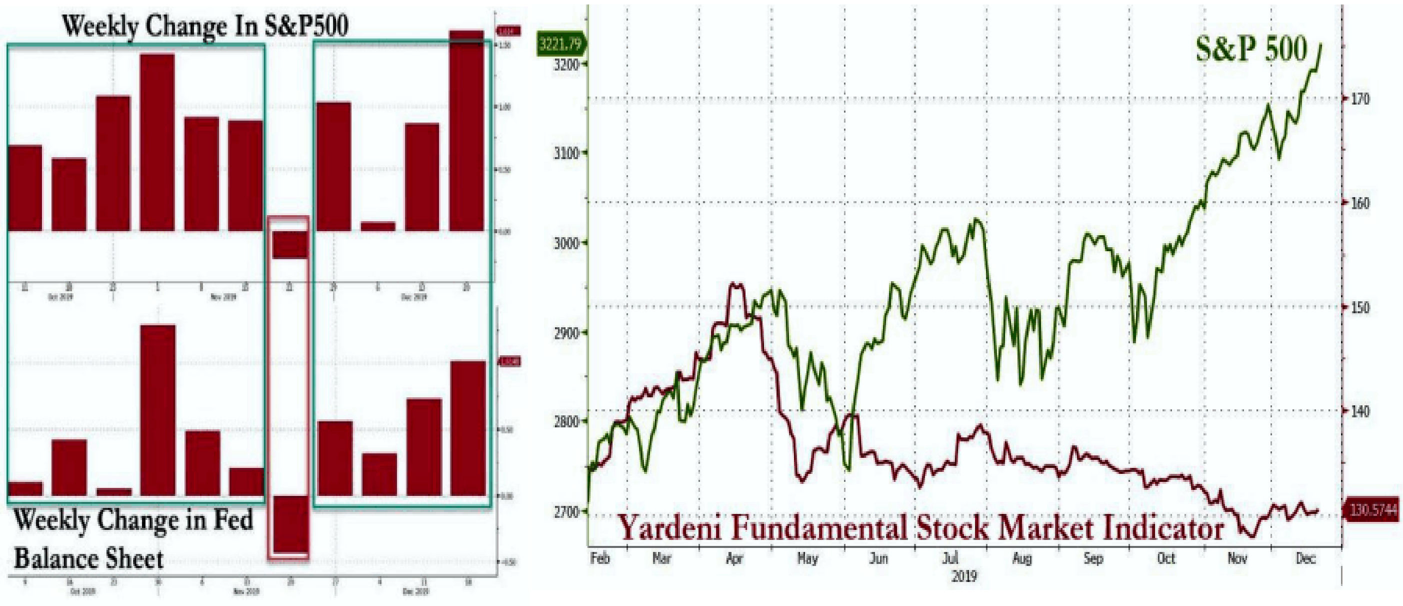
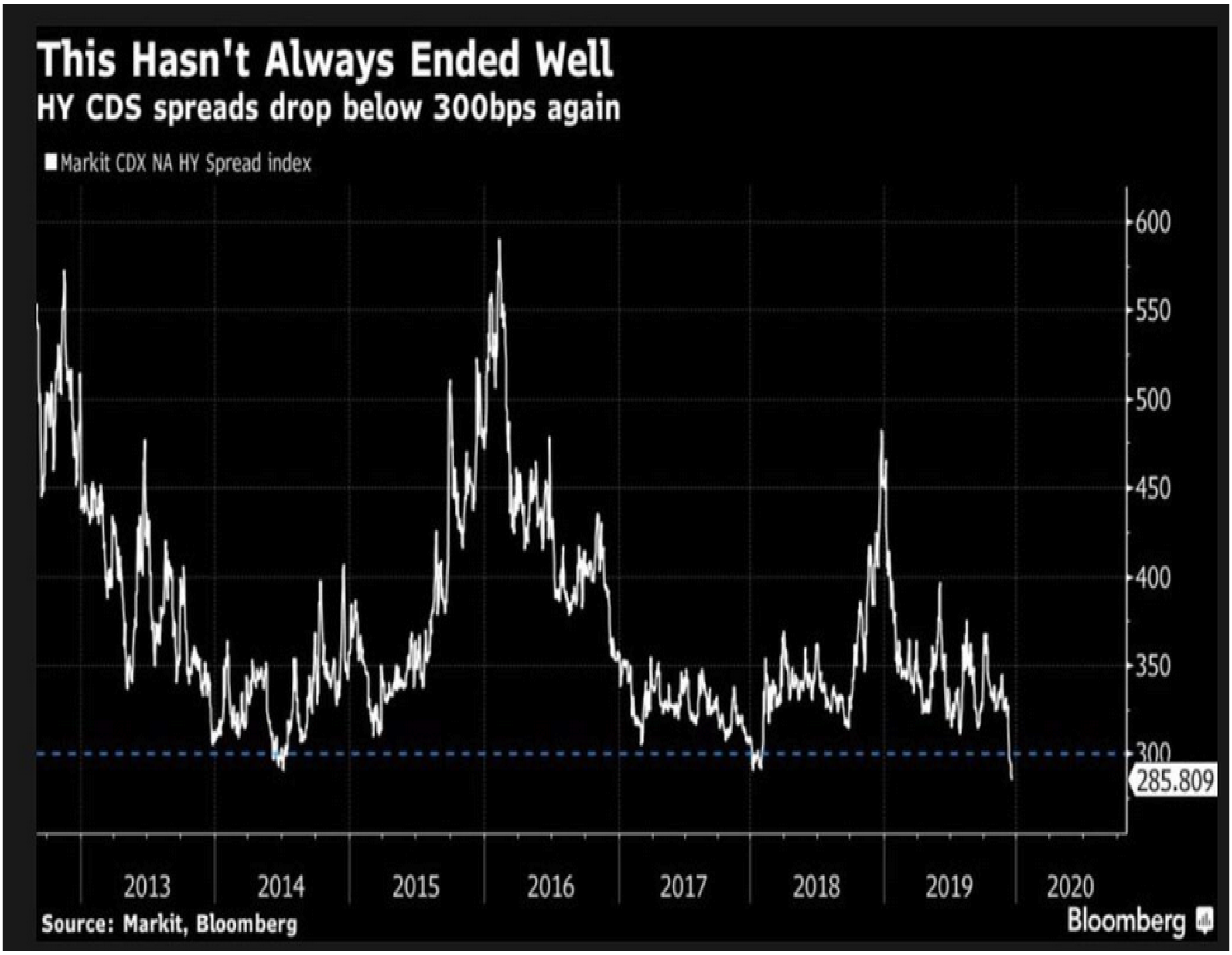
This message hasn't changed over the last week:

> *"While the Federal Reserve accurately states this is NOT 'Quantitative Easing,' apparently market participants didn't get the memo. The market has risen in every single week the Fed has been active, despite collapsing fundamentals.* *(h/t ZeroHedge)"*



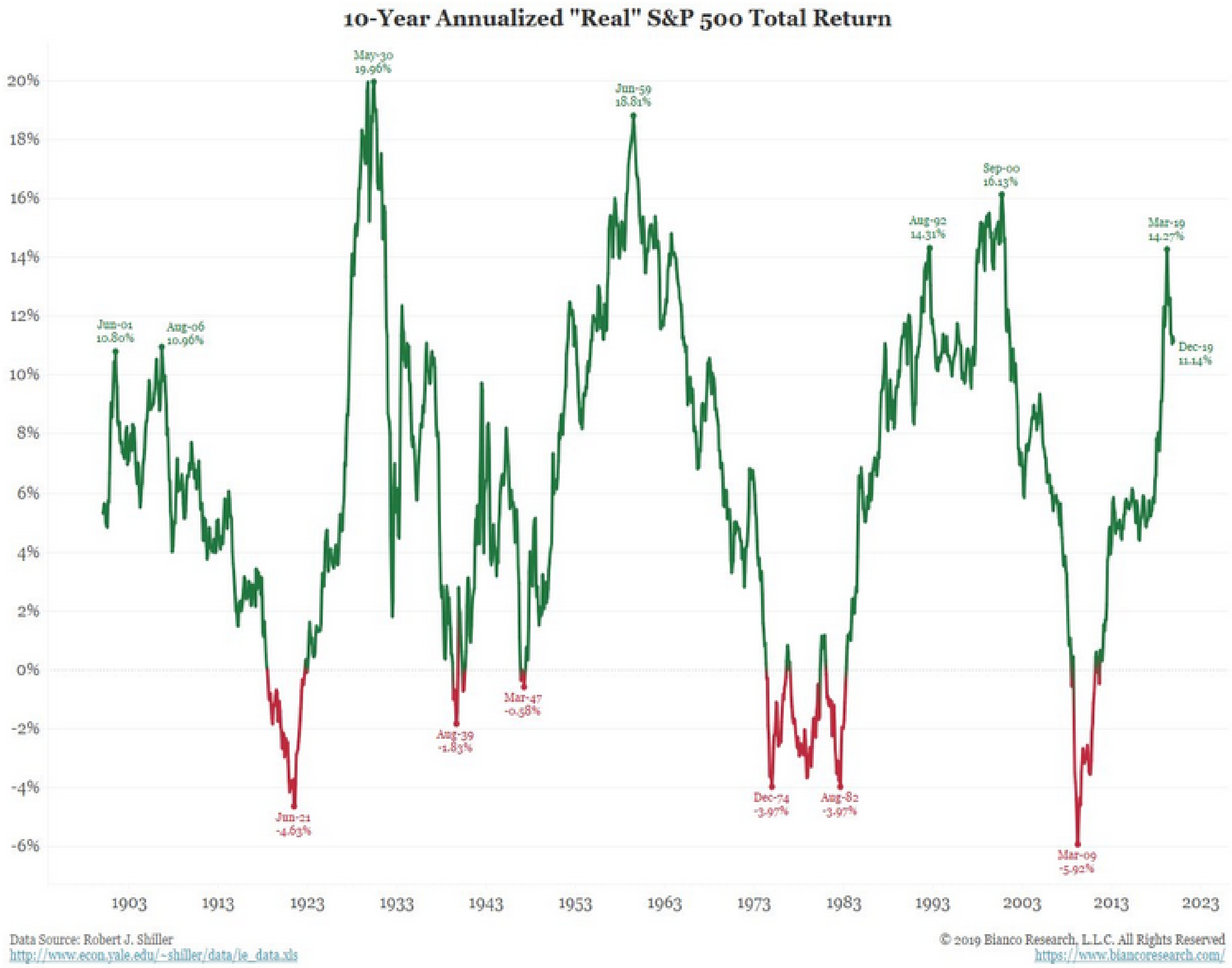
Speaking of optimism, and outright complacency, the difference *(spread)* between the high yield *(junk debt)* CDX index and U.S. Treasury yields has fallen back below 300 basis points. The index measures the cost of insuring high yield debt against default. This extremely low cost of insurance, especially this far into an economic expansion, reeks of complacency and a chase for extra yield as we are seeing in other asset markets.



Four Charts That Will Define The Next Decade&#2013266080;

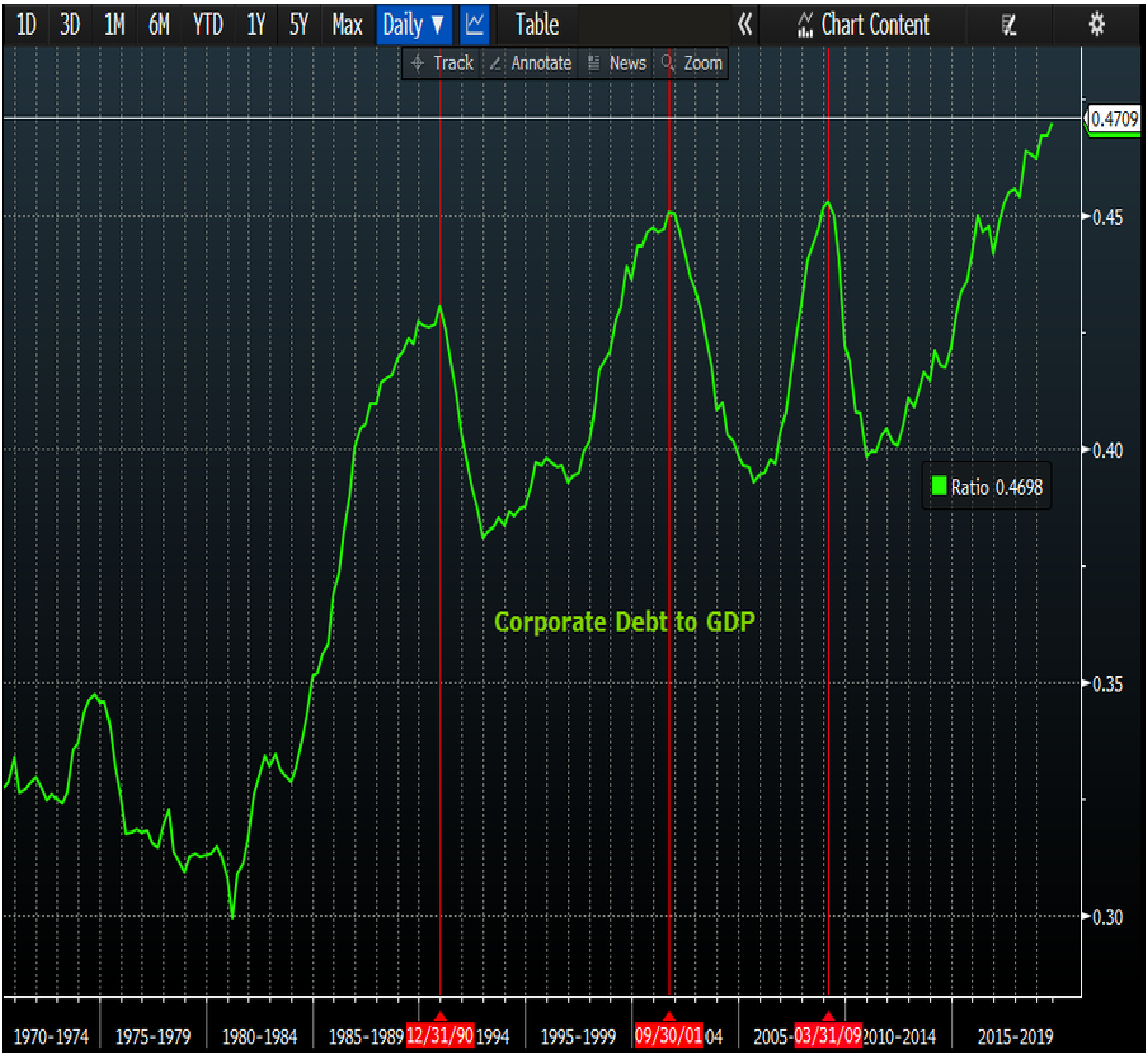
The following four charts were tweeted out by my partner Jack Scott *(@jackpscott)* which will literally define the next decade.

1 - Annualized Returns are one of the more *"mean reverting"* series in the financial markets. Decades of high returns are inevitability followed by a subsequent low, and even negative, returns. *(If you are close to retirement this is an extremely critical point to understand when it comes to your financial planning.)*



2 - Household Net Worth as a Percentage of GDP is pushing record levels. While not in itself a *"bad thing,"* the benefit has been confined to the top-20% income earners. Importantly, asset growth has far outstripped economic growth which is unsustainable long-term. This series too, will mean revert.&#2013266080;

3 - Corporate Debt To GDP is also pushing unsustainable levels. Debt ultimately has to be *"cleared"* before the system can re-leverage for the next growth cycle. The next reversion cycle will be brutal on a large number of publicly traded companies which have relied on "cheap debt" to sustain poor fundamental business models. **Be careful what you own.**



4 - Melt-Ups In Markets Can Seem Rational&#2013266080;in the heat of the moment. However, when *"reality"* inserts itself, the eventual reversion tends to be brutal.&#2013266080;

What you do with the data is up to you. All I am suggesting is that it took a decade of *"fiscal largess"* by Central Banks globally to create these extremes. It will likely take a decade to complete a reversion.

Portfolio Positioning

From last week:

> *"As we have noted over the past year,* ***we have remained primarily allocated toward equity exposure, but have also worked around the edges hedging risk,*** *raising stop levels, and remaining primarily domestic-focused. Given our outlook for a steeper yield curve earlier this year, we also shorted duration in our bond allocations, increased credit quality, and carried a slightly higher than normal level of cash."*

Currently, that remains the case again this week.

In September, we added exposure to Amazon *(AMZN)* and the Discretionary Sector *(XLY)* to participate with a *"better than expected retail shopping season."&#2013266080;*

Not surprisingly, this past week both surged on headlines from the media that retail sales were strong for the Christmas shopping season. However, this is probably not actually the case judging from real *"retail sales"* which were weak in November and will likely be weak in December. Nonetheless, the positions have performed well and will take profits as the decade ends.

As noted last week, the markets are now even more extremely deviated from long-term trends. Combined with the extreme complacency and excess bullishness *(as noted above)*, the risk of a correction remains high as we move into January or February. ***(More on this in our MacroView)***

As noted below, the market has not been this overbought, extended, and deviated from long-term trends since the peak of the market in 2018. This isn't necessarily a "bearish" note, but does suggest that the bulk of the gains are currently built into portfolios.

While none of this means the next *"bear market"* is lurking, it does suggest that a fairly decent 5-10% correction is likely over the next couple of months.&#2013266080;

As we head into the final few trading days of the year, it is worth reminding you of *"the rules"* ***[we penned in last week's missive.](#)*** These processes follow our basic rules of portfolio management, which you can apply to your portfolio as well to reduce overall volatility risk.

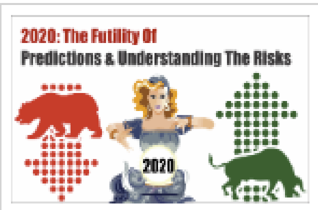
1. ***Tighten up stop-loss levels****&#2013266080;to current support levels for each position.*
2. ***Hedge portfolios****&#2013266080;against major market declines.*
3. ***Take profits****&#2013266080;in positions that have been big winners*
4. ***Sell laggards****&#2013266080;and losers*
5. ***Raise cash****&#2013266080;and rebalance portfolios to target weightings.*

> **Notice, nothing in there says, *?sell everything and go to cash.?***

Remember, our job as investors is pretty simple ? protect our investment capital from short-term destruction, so we can play the long-term investment game.

Of course, if the Fed fails to *"extinguish"* whatever *"blaze"* they are currently battling, then we will begin to have a very different conversation about risk, positioning, and liquidity.&#2013266080;

The Macro View



[2020: The Futility Of Predictions & Understanding The Risk]

Written by Lance Roberts | Dec 21, 2019

"Predictions Are Difficult…Especially When They Are About The Future" – Niels Bohr We can't predict the…

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If you need help or have questions, we are always glad to help. [Just email me.]

Wishing You A Safe, Happy, & Prosperous New Year

Financial Planning Corner

Financial Planning Corner: What You Need To Know About The SECURE Act

Written by Danny Ratliff | Dec 21, 2019

All you need to know about the SECURE ACT, a Required Minimum Distribution reminder and…

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You?ll be hearing more about more specific strategies to diversify soon, but don?t hesitate to give me any suggestions or questions.

by Danny Ratliff, CFP&#2013266094;, ChFC&#2013266094;

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

Will Return Next Week

Portfolio/Client Update:

This past week, the market continued to surge as *"Santa Claus"* officially came to Wall Street carrying a whole bag full of *"Fed Liquidity."* If you didn't read it, please read our ***"MacroView"*** which discusses our views for 2020.

Over the last couple of weeks, we have discussed looking for the opportunity to add exposure to small and mid-caps, international and emerging markets, as well as industrials, materials, and energy.&#2013266080;

As noted last week, we have made some additions to portfolios in these areas but we are now just going to remain flat with the markets as extended as they are. We suspect that our next course of actions will be to reduce exposure, rather than increase. We will keep you apprised accordingly.&#2013266080;

As noted previously, **and as discussed this past week,** the addition of the small-cap value fund is a long-term structure we will build into over the next several quarters. The rotation to value has not truly started yet, but when it does, it will be a big winner for the portfolio. In the short-term it will likely drag on performance, so please be aware this is a long-term macro theme we are building into.&#2013266080;

- **New clients:** *We are holding off onboarding new client assets until we see some corrective action or consolidation in the market.*
- ***Equity Model:*** *No Changes*

- ***ETF Model****: No Changes*

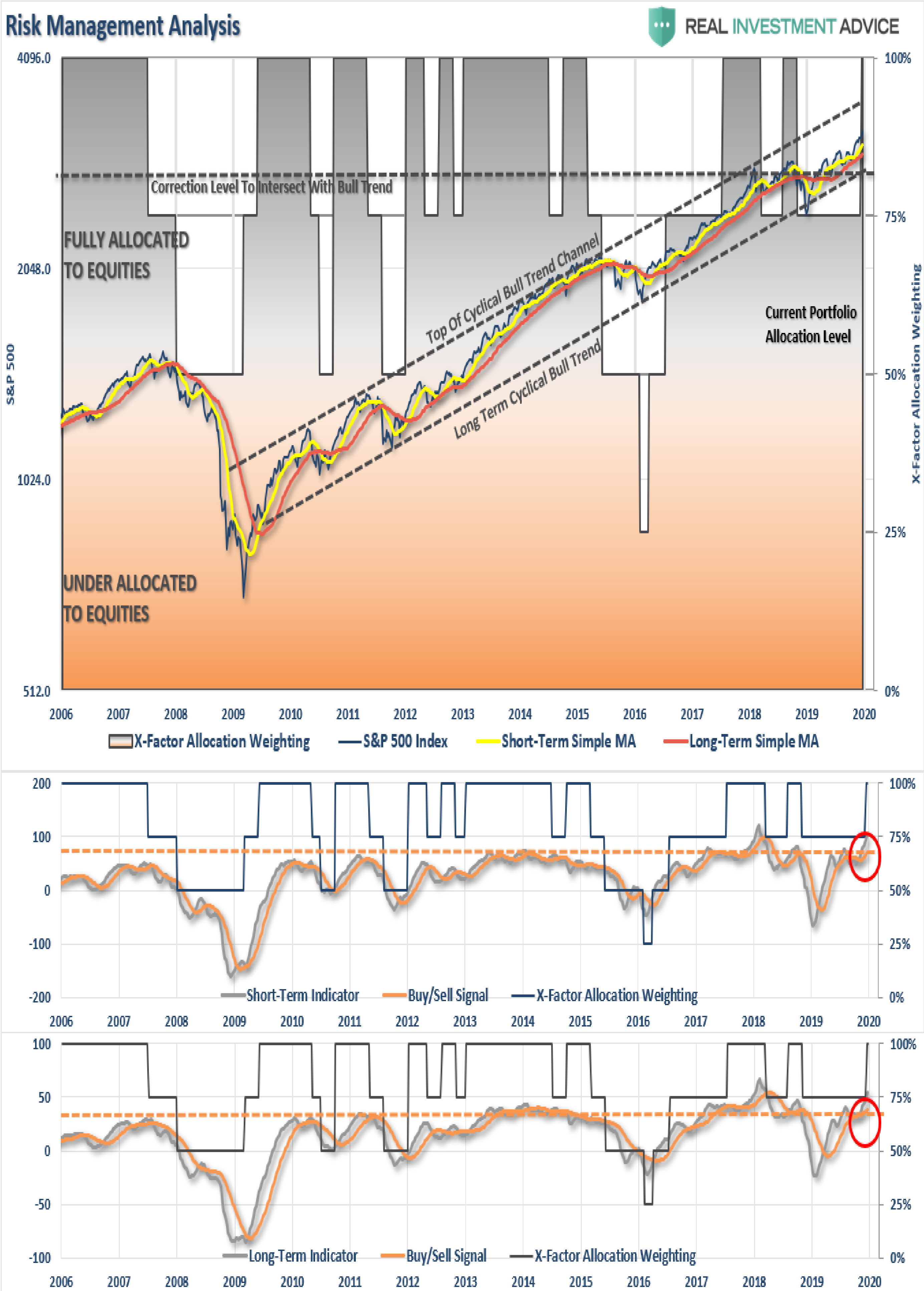
Note for new clients:

It is important to understand that when we add to our equity allocations, ALL purchases are initially&#2013266080;*?trades?*&#2013266080;that can, and will, be closed out quickly if they fail to work as anticipated.&#2013266080;This is why we&#2013266080;*?step?*&#2013266080;into positions initially. Once a&#2013266080;*?trade?*&#2013266080;begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment.&#2013266080;**We will unwind these actions either by reducing, selling, or hedging if the market environment changes for the worse.**

THE REAL 401k PLAN MANAGER

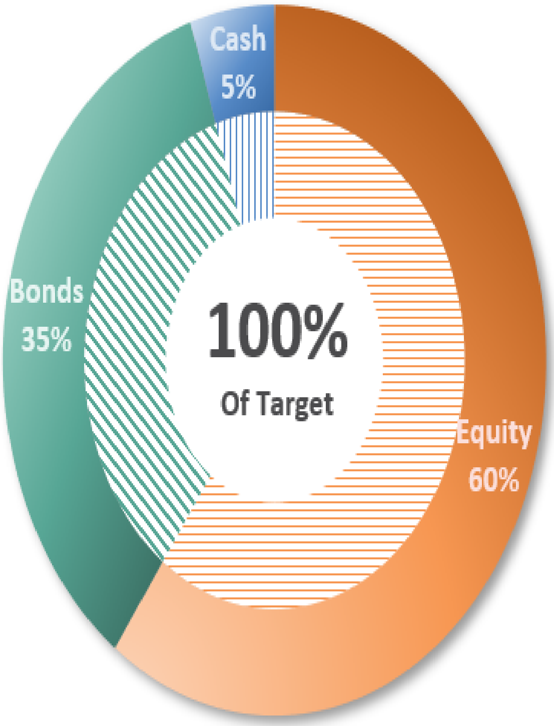
A Conservative Strategy For Long-Term Investors

The 401k plan allocation plan below follows the K.I.S.S. principle. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time. ***(If you want to make it more complicated you can, however, statistics show that simply adding more funds does not increase performance to any great degree.)***



Risk Management Analysis
REAL INVESTMENT ADVICE
4096.0
2048.0
1024.0
512.0
S&P 500
100%
75%
50%
25%
0%
X-Factor Allocation Weighting
Correction Level To Intersect With Bull Trend
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
X-Factor Allocation Weighting
S&P 500 Index
Short-Term Simple MA
Long-Term Simple MA
200
100
0
-100
-200
Short-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting
100
50
0
-50
-100
Long-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting

Current Portfolio Weighting



Current 401k Allocation Model

5.00% **Cash + All Future Contributions**

Primary concern is the protection of investment capital

Examples: *Stable Value, Money Market, Retirement Reserves*

35.00% **Fixed Income (Bonds)**

Bond Funds reflect the direction of interest rates

Examples: *Short Duration, Total Return and Real Return Funds*

60.00% **Equity (Stocks)**

The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.

15% *Equity Income, Balanced or Conservative Allocation*
35% *Large Cap Growth (S&P 500 Index)*
5% *International Large Cap Dividend*
5% *Mid Cap Growth*

Portfolio Instructions:

Allocation Level To Equities	Reommendation	When To Take Action
Less Than Target Allocation	Increase To Target	Move To Target Allocation
Equal To Target Allocation	No Change	Be Ready To Move To Full Wgt.
Over Target Allocation	No Change	Hold Current Position

Commentary

As noted in the commentary above, the market remains extremely overbought and extended. Last week, we moved the portfolio model to 100% given the end of the year rally is being supported by massive doses of Fed liquidity. Be careful chasing markets here, it is likely we will see a correction in early 2020, so if you are close to retirement, be sure and control your risk.

Very likely we will need to make some more adjustments after the beginning of the year, so remain cautious and move slowly.

If you need help after reading the alert; do not hesitate to **contact me.**

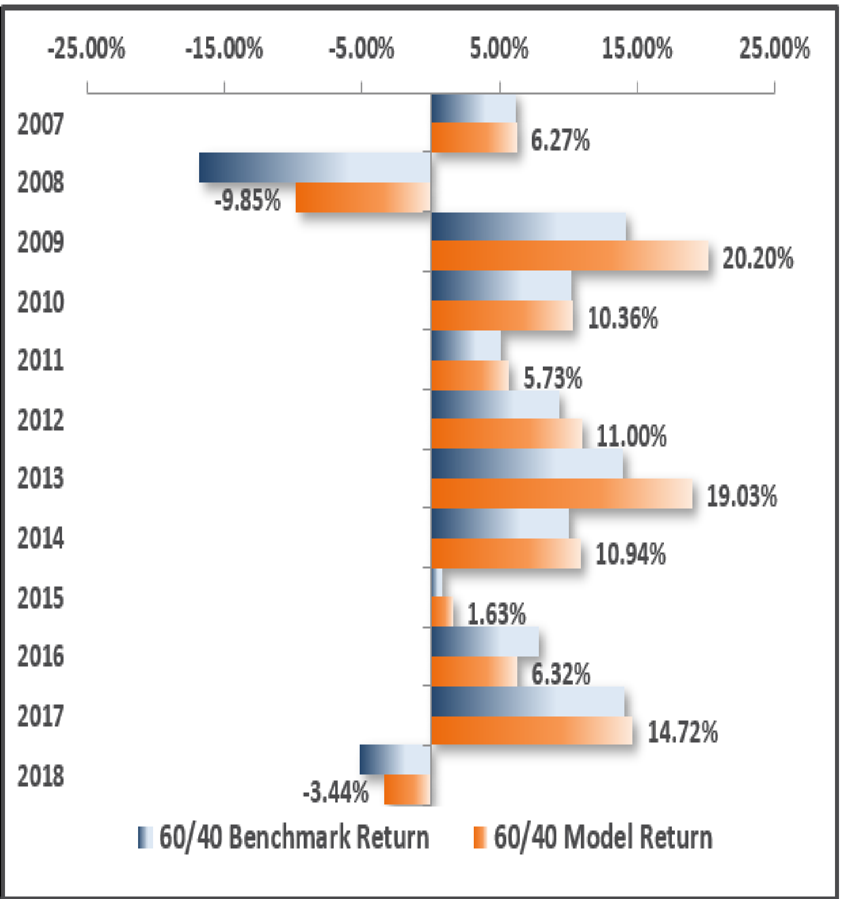
[Click Here For The "LIVE" Version Of The 401k Plan Manager]()

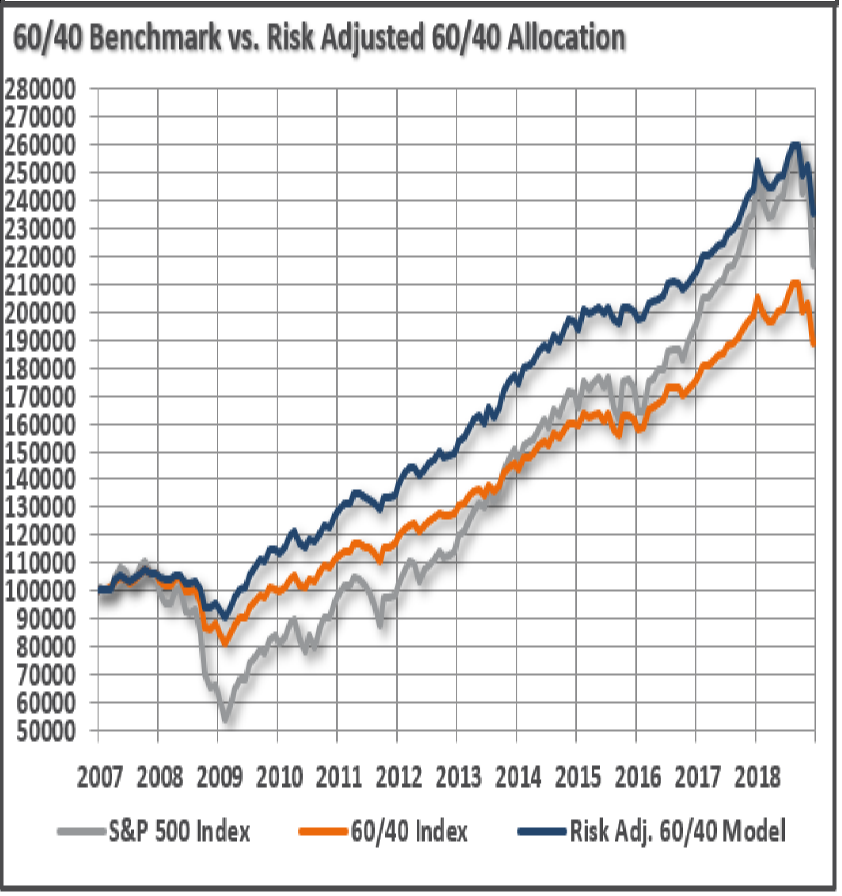
See below for an example of a comparative&#2013266080;model.

Model performance is based on a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. This is strictly for informational and educational purposes only and should not be relied upon for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.&#2013266080;

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.14%	6.27%
2008	-16.78%	-9.85%
2009	14.20%	20.20%
2010	10.22%	10.36%
2011	5.09%	5.73%
2012	9.33%	11.00%
2013	13.93%	19.03%
2014	10.06%	10.94%
2015	0.82%	1.63%
2016	7.81%	6.32%
2017	14.12%	14.72%
2018	-5.13%	-3.44%

Portfolio vs Benchmark Statistics	
Number of Up Years	10
Number of Down Years	2
Best One Year Return Of Benchmark	14.20%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.78%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	88.49%
Model Return 2007-Present	135.70%
Total Alpha Generated	47.22%
Mean Annual Return Of Benchmark	6.08%
Mean Annual Return Of Model	8.16%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.53%
Sharpe Ratio	0.20





401k Plan Manager Live Model

As an **RIA PRO subscriber** ***(You get your first 30-days free) you have access to our live 401k p***

&#2013266080;The code will give you access to the entire site during the 401k-BETA testing process, so not only will you get to help us work out the bugs on the 401k plan manager, you can submit your comments about the rest of the site as well.

We are building models specific to company plans. So, if you would like to see your company plan included specifically, send me the following:

- *Name of the company*
- *Plan Sponsor*
- *A print out of your plan choices. (Fund Symbol and Fund Name)*

If you would like to offer our service to your employees at a deeply discounted corporate rate, please contact me.

RIAPro

Investment Analysis, Research & Data
From The RIA Investment Team

Dashboard | Macro ▼ | Ideas ▼ | Research ▼ | Portfolio ▼ | 401K - Beta | Symbol | Help

This is the Beta version of 401K. Some Errors are expected ! Click Here to report Issues

My Portfolios | CVS Health ▼ | Enter Portfolio Name | ✓ Add Portfolio | ✓ Delete Portfolio | ✓ Rename Portfolio

My Info | Fund Selection | Comparison | Summary | Commentary

My Portfolio

RIAPro Portfolio RIA PRO MODEL PL ▼

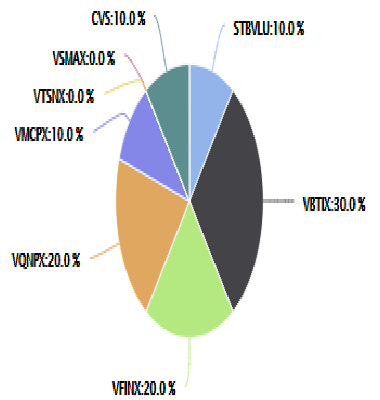
Retirement Income (My Portfolio Annual ROR 9.44 %)

Current account balance	10,000
Estimated Retirement Balance	632,861
Estimated Retirement Balance (Inflation Adj)	620,204
Monthly Income	2,768
Monthly Income (Inflation Adj)	2,713
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

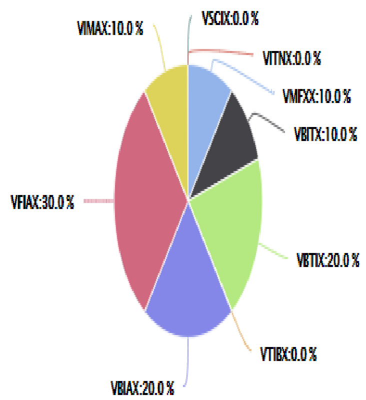
Retirement Income (RiaPro Annual ROR 9.02 %)

Current account balance	10,000
Estimated Retirement Balance	609,786
Estimated Retirement Balance (Inflation Adj)	597,590
Monthly Income	2,667
Monthly Income (Inflation Adj)	2,614
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

My Fund Composition



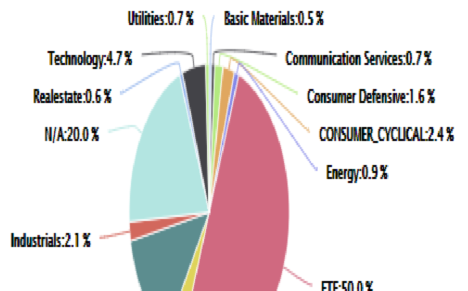
RIAPro Fund Composition



My Asset Composition

RIAPro Asset Composition

My Sector Composition



RIAPro Sector Composition